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... AN ADDRESS BY ....

BENJAMIN F. BUSH

Receiver of the Missouri Pacific Railway Company

BEFORE THE

COMMERCIAL CLUB

OF ST. LOUIS

OCTOBER 27th, 1915

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ADDRESS

OF

MR. BENJAMIN F. BUSH,

BEFORE THE

COMMERCIAL CLUB, OF ST. LOUIS, MO.

OCTOBER 27TH, 1915.

The subject assigned me for this evening, "Why are several large Western Railway Systems in Receivers' hands," is one of which a great deal could be said. To cover the subject fully would, I suppose, require an incursion into the past history of railroad operations as well as a review of the more immediate causes.

The fierce competition for business which existed between the railroads in the past, urged on by the commercial rivalry of the different communities served, brought on many rate wars which resulted in ruinously low rates.

A war of rates generally brought low figures, and the tariffs upon readjustment were rarely restored to the full measure which obtained prior to the reduction. Some one of the many interested lines always had a reason why the former basis could not be restored, and as the complexity of the rate situation is such, with competitive carriers, competitive commodities, and competitive markets and communities, a specific change made by one line must be followed by the others, in order that all shall be on a relative plane. A disturbance of a rate in one given section will oftentimes affect the rates over an extended territory, the ramifications of the many divergent lines form, as it were, a net work, and an impact on any one part vibrates the whole.

Through the many rate wars and the ever active and unrestrained competition of the past, the rates were on a low

basis when the Interstate Commerce law went into effect, but low as they were then, they have been further materially reduced from time to time by the Commission during its twenty-eight years' existence.

It may be said that the railroads were to blame for allowing the destructive competition which was productive of the low rates that prevailed and which crystallized into the maxima they could charge when the Federal regulation became operative, and it is probable they were to some degree. When we consider, however, the conditions which then obtained, of the unrestricted railroad building and the transportation facilities in many sections largely in excess of requirements, it was natural that the carriers' representatives would exert their full power, using all the means at their command toward getting the largest possible volume of tonnage to fill the trains of their respective lines. In their zeal for the promotion of the interests they served, and in line with the business customs which then prevailed, they exercised their power of making liberal concessions in rates when necessary to acquire a newly competitive tonnage or to retain their regularly established traffic. There was not business enough to satisfy the needs of all, and there was no protection afforded them against the unfair destructive competition so frequently waged, as agreements for the conservation of revenues were unlawful. Each carrier was, therefore, obliged for self-protection to exercise its privileges to the best advantage. But while the then practices were injurious to the railroad interests, I believe they stimulated production and industry to a great degree. At all events, the results have been a transportation system that is the greatest in the world and an internal commerce that in vastness of volume and cheapness of movement is the marvel of the age.

The regulation which prescribes that the published tariff rates shall not be deviated from, and shall be the only ones charged to shippers, is beneficial to the carriers, for it prevents secret rates and expensive irregular practices formerly indulged in, but the gains from these will not compensate for the sweeping reductions that have since been made in the rates, and the enforced additional operation expenses which have followed the Federal and State enactments, and the rulings of Commissions, State and Interstate. The immense growth of traffic

in these past years, and the large expenditures of new capital which provided more ample facilities, thus making practicable a greater efficiency in operation and a reduction in the unit of cost, have been the only means by which the business of the country has been thus far saved from strangulation, and the great railroad industry saved from a more immediate insolvency.

It has been said by a great English expert and economist, after a careful study of our railroad system, that, "in actual economy of operation the United States railways are the first in the world; that in the fullest utilization of locomotives and cars, and in the obtaining of the greatest measure of results for each unit of expenditure, they are not equaled by the railways of any other nation."

This efficiency may be exemplified in part by the fact that in the so-called western territory, comprising the roads west of the Great Lakes and the Mississippi River, the freight train mileage was nearly three millions of miles less in 1914 than in 1904, although the tons carried one mile in 1914 were 28 billions more than in 1904. Efficiency of this character, however, cannot be maintained without substantial additions to equipment and improvement of the plant and facilities, and as these require sums of money beyond the surplus of the road's operations, it becomes a problem as to how it can be obtained.

Great as the increased efficiency and decreased units of cost have been, they are not now ample to stem the tide of an almost constant reduction of rates and an enforced addition to expenses.

The tonnage and passengers carried, and the revenue derived therefrom, show substantial increases for given periods, but the gains are more than offset by the increased expenses which are beyond the power of the management to control. Federal, State and Municipal enactments during the last ten or more years, have greatly reduced the rates of the carriers and added to their operating expenses. The requirements of the law in elevating tracks, constructing viaducts, elimination of grade crossings, costly changes in equipment, safety and sanitary appliances, block signals, boiler inspection, curtailing

hours of service, limiting the hours of confinement of live stock, making up and dispatching extra trains from terminals under certain conditions, construction of buildings to shelter men employed in repairing cars, expense of accounting, and other enforced expenditures, all tend to swell the operating costs.

To these may be added the ever insistent demand of the public for better service and facilities, which oftentimes are unremunerative or not warranted by the financial return, such as expensive passenger stations, more frequent and better passenger trains, faster time in freight movement and a higher standard of service throughout.

Of course it would be most pleasing to the Railroad Manager to satisfy these demands if he had the means at his command, but under the conditions governing, he rarely has the means and many times can meet these varied requirements only by the curtailment of efficiency in some other important field of operation.

This grave situation has been intensified by the action of Legislatures and Commissions in reducing freight, passenger and express rates.

We have freight rates in this State made by the Legislature so low that there is no parallel for them, not even where the most active competitive conditions exist, or where the traffic is of enormous density. These rates, be it remembered, are a reduction of the reasonable rates established by the Railroad Commission, a body constituted by the Legislature for that purpose. Notwithstanding the rates prescribed by the Commission were the result of the best thought and judgment of that body after careful inquiry and investigation, and no complaints against them were made by shippers, the Legislature enacted a law arbitrarily reducing them to low figures. They are in many instances as much as 40 per cent lower than the rates of adjoining States, and it is a stigma upon the fairness of the State to one of its most important industries, to have them upon its statute books. It will be conceded, I think, that the Commission whose duty it was to gather information from all available sources, and carefully consider and study such matters, was more competent to determine what were proper rates than was the Legislature.

It has been demonstrated beyond all doubt that railroads cannot give the passenger service demanded by the public now provided at the current rate of 2 cents per mile. The revenue from passengers is not ample to pay a proper proportion of the expense incident to the operation of passenger trains. The frequency of trains, high speeds, and more costly equipment, together with the increased wages of employes and higher prices of materials, have materially swelled the cost of this service. Almost similar adverse conditions confront us in other States traversed by our lines, particularly so in Arkansas and Kansas, from which we have been unable to get relief, outside the Courts.

Increased postal facilities have been required by the Government without adequate compensation,

Express earnings, in which the railroads share, have been reduced and further curtailed by the extension of the Parcel Post, but the burden of carriage is imposed upon the railroads without commensurate revenue.

Taxes have enormously increased. Forty-one western roads for which statistics were recently prepared, show that they paid $14,000,000 taxes in 1901 and in 1914 over $42,000,000, or three times more.

Organized labor has had its repeated demands for higher wages sanctioned by Arbitration Boards. The compensation paid employes of 41 western roads, operating 98,000 miles of line, increased from $157,939,000 in 1900 to $404,847,000 in 1914, which is more than two and one-half times greater.

For the calendar year 1914, the Bureau of Railway Statistics shows that the revenue available for dividends was less than one per cent on the capital stock of the operating railways of the country.

The American citizen, no matter what his calling, should understand that the railroads are an important factor in his business success, and if they deteriorate in service he will be affected thereby. The values of our agricultural and industrial products, as well as of other trades and callings, will be seriously impaired by defective railroad service.

The right to regulate should carry with it the obligation of reasonable protection, and where carriers are subjected to

enforced expenditures, they should in all fairness be permitted to increase the compensation for service rendered to meet the outlay. That they are not, is shown by many of them in their reports of operations.

Already the work of destruction has begun and the record of insolvency is unparalleled in history. There are now 82 railway companies, operating 41,988 miles of line, that are unable to pay their bills. They have been forced into bankruptcy and are operated by receivers. Eighty per cent of the mileage is of lines that are tributary to St. Louis and serve the Western and Southwestern territories. The capitalization of these companies is $2,264,000,000, consisting of $1,475,000,000 funded debt and $789,000,000 stock. A more forcible idea of the enormity of this destruction may be formed when we reflect that this railway mileage is of sufficient length to girdle the earth with rails and in addition furnish four main tracks from the Atlantic to the Pacific and from the Great Lakes to the Gulf of Mexico.

It will no doubt be conjectured by many that mismanagement was the predisposing cause of this enormous insolvency, and that it was brought on largely by the stock and bond operations of the railroad speculators. The securities of some of the insolvent roads may have been manipulated to the detriment of the companies. For such I am no apologist, but entirely apart from such methods, the practical operating results disclose the facts that the railroads are fast declining in their ability to make returns on the cost of road and equipment.

In the recent western rate case before the Interstate Commission it was shown that the increased investment of new money in road and equipment of 41 western and southwestern railroads, having a mileage of 98,000 miles, for the seven years prior to 1915, was $1,236,000,000, and while there was a substantial increase in the gross earnings in that time of $164,800,000, there was a decrease in the net operating income of $23,599,000; in other words, after increasing the investment in their properties nearly a billion and a quarter dollars the railroads had less money to pay a return on the investment than they had before. The correctness of these figures was specifically vouched for by the Commission, as the accounts for that period were kept strictly in accord with the orders

which it issued. A statement compiled by the Commission itself of 26 of these roads, some of them prosperous, showed that for six years there was invested in road and equipment $990,000,000, but the increase in the operating net income in that time was only sufficient to yield seven-tenths of one per cent on the investment. The financial management of the roads, whether good or bad, would not affect this situation. It is based on actual investment, actual expenses and taxes, and has no reference to capitalization; so that no matter how the financial management of the individual properties may have been conducted, this exhibit of a declining operating income, following an increased property investment, would not be changed in the least.

Where do we find an inducement for the capitalist to invest in railroad properties upon such unfavorable operations as now attend them? How then can the money be raised? And if it could be raised, would the managements be justified in expending it under the conditions governing? These are matters that may well claim our attention, for the welfare of the entire industrial and commercial undertakings is involved in the outcome.

If the transportation service of the country is to be properly maintained to a standard commensurate with the requirements of the steadily increasing production of trade and commerce, hundreds of millions of new money will be required each year for a long time to come. Equipment of larger capacity, heavier rail, stronger bridges, more ample terminal facilities and hundreds of other accessories will have to be provided to meet the exigencies. These improvements cannot be paid for from earnings, as these in many cases are scarcely sufficient now to meet operation expenses, taxes and mortgage interest.

Even such finished railroads as the Pennsylvania and New York Central find it necessary to spend tens of millions of dollars of new capital yearly for improvement of facilities. Our western and southwestern lines, traversing territory of vast commercial possibilities which as yet have scarcely been trenched upon, are still in a crude state and will require some hundreds of millions yearly if they are to keep pace with the traffic development and transport it with facility and despatch to the markets of demand.

In the four years that I have been with the Missouri Pacific System there has been spent on road and equipment upwards of $21,000,000 of new money, and a careful estimate of the requirements for the next five years, after eliminating everything that we think we can possibly get along without, shows that $29,000,000 will be required to conform to Federal, State and Municipal enactments and provide for urgent needs which will afford a reasonable service to the public. It should be understood, of course, that in the expenditure of this new money, no part of it is used in the regular maintenance of road and equipment or other operating expenses, as these are provided for out of earnings under a strict surveillance of the Interstate Commerce Commission.

It is a puzzle to the Railroad Manager that this transportation industry, through whose ability to provide ample service, the prosperity of the entire country is measured, should not be afforded better protection in its operations for the general good. Considering what it has done toward upbuilding and developing the country, improving the conditions of living, and adding to all the comforts and conveniences of life, it certainly should receive more favorable consideration, so that it may continue its useful purpose and elevate to a still higher plane the social, commercial, industrial and agricultural conditions of our people.

It is a mistaken conception, though one generally prevalent, that the railroads are overcapitalized and seek to obtain exorbitant rates from the public to pay interest on the excessive capital. The fact is, we have high authority for the statement that the physical properties of the railroads could not be duplicated to-day for anything like the present capitalization. The money of the owners, not capitalized, that has been expended on the roads from year to year since their pioneer days, in betterments and improvements of roadbed, equipment and their accessories, has long since absorbed any water there may have been in the securities. The capitalization per mile is less than one-quarter of that of the English railways and less than one-half of that of other European countries. Yet these foreign roads are permitted to charge rates which yield returns on their high capitalization.

If the people insist that the railway service, to which they have been accustomed and to which the business of the country is adjusted, shall still obtain, or, that a higher standard of service to meet the exigencies that may arise in trade and commerce shall be inaugurated, they must understand that these can be furnished only through the ability of the owners of the properties to pay the bills. Under the conditions which now govern, I can conceive of no investing power through private ownership that will be able to pay the bills, and, therefore, the conclusion is forced upon us that only through Government ownership can the bills be paid.

While we may differ in opinion as to whether by Government ownership the railroads can be operated for the development of the resources of the country and the general good, as well as they have been in the past, under private ownership, still, it is a matter which I think may give us grave concern.

An illustration of the effects of Government ownership is the action of the Government toward the Panama Railroad, owned by the United States since 1904. It operates 48 miles of main line. In 1914 its total ton mileage was 66,000,000, upon which it received an average rate of 4.33 cents per ton per mile, or almost six times more than the average rate received by United States roads, which was 7.29 mills. Its freight revenue per mile was $46,748, against an average in the United States of $7,962.

The passenger rates are also higher than those charged by United States roads. The passenger revenue per mile of road in 1914 was over $18,000 per mile as against a little over $3,000 by roads in this country.

In addition to being allowed to charge high passenger and freight rates, it received $2.77 for each ton of mail carried one mile, which is 28 times as much as the Government pays the privately owned roads of this country. Yet in the face of this showing on a Government-conducted railroad, the privately-owned roads of this country have thus far been unable to get an increase in their compensation for carrying the mails, notwithstanding the well-known facts that the weight has greatly increased, and a Joint Committee of Congress has reported that the present compensation is too low.

The Associate Statistician of the Interstate Commerce Commission investigated for the Congressional Committee the compensation paid the railroads for the carriage of the mails. His report, after a thorough canvass of the service rendered, and its cost to the railroads, was that an increase of 10 per cent over the present compensation would not constitute an overpayment, and still there has been no favorable action.

All these adverse conditions, and many others with which the railroads are beset, weaken their operating efficiency, deplete their revenues, and shatter their credit with the investing public.

As to how the future financing of the American railroads can be accomplished, is a grave problem. Upon it depends their ability to provide prompt and safe movement everywhere for the existing and increasing productions of our limitless resources. It is needless to point out that without ample provision for this movement, production will stagnate, and the commerce and business of our country will be curtailed accordingly.

For the prosperous conditions under which we now live, with the attendant comforts and conveniences which we enjoy, we are indebted chiefly to railroad transportation, and so, too, the continued advancement of this great Nation will depend primarily upon the efficient working of this indispensable industry. It is fitting, therefore, that its earnings should be adequate for improvement at advantage and profit, and that the capital which is required for its needful expansion should be permitted to realize fairly liberal returns. These ends can be attained only by an increase in the compensation for service rendered, without which the task of the railroads in meeting the dire consequences of the situation will be hopeless.

It is a most severe commentary on the methods of regulation by Federal and State authorities of this all-essential industry, upon whose efficient working the success of every other trade and calling depends and the welfare of the entire community is at stake, that it should be rendered powerless to raise the necessary capital to enable it to satisfactorily perform its functions. We have to-day presented before us the spectacle of this grand transportation system, the greatest

industry of the age, which confers untold benefits to all and is almost indispensable to their very existence, not being able—though with an immense property creation underlying—to raise the necessary means to enable it to continue and progress in its useful pursuits. This is not for want of surplus capital in the country, as was demonstrated by the alacrity with which the five hundred million Anglo-French loan was recently made, and made without collateral, but it is for want of confidence on the part of the investing public on the outcome of the railroad returns, and a fear of their inability to meet the principal and interest payments on maturity.

In the past, the prospect of increasing returns with the development of the country and the advance in the market value of railroad securities operated as an inducement to attract capital, but these incentives are entirely lacking in the existing situation. The conditions which now obtain repel rather than invite such investments, and, therefore, before the required capital can be secured the returns must be more favorable and more certain than in the past. Relief from the present onerous conditions under which the railroads are operating must forthcome in the near future, if the business of the public is to be provided with satisfactory transportation service and the commerce of the country permitted to expand as in the past. In no other way than by an increase of rates can the carriers establish and maintain a credit so essential in the obtaining of new money to provide the required facilities and equipment.

A careful and impartial analysis of the railroad situation today irresistibly forces the conclusion that there is no subject before the people, no policy engaging the attention of the Government, that in its future economic aspects foreshadows more dangers both to the commerce of the country and to our institutions than does that of railroad transportation, and, therefore, that it is deserving of the most scrupulous consideration.

It is disheartening to think that, notwithstanding its importance to the entire body politic and the threatened dangers which the trend of conditions foreshadow, no measures for their amelioration have been enacted in our legislative halls.

The subjects of tariff, currency, trade commission and other legislation have engaged the attention of our statesmen, and it is hoped that the settlements which have been effected will be productive of the beneficial results claimed for them, but these measures while important to the general welfare, are not more so—in fact, not so much so—as would be the settlement of the railway troubles. The commercial supremacy of the world would be the proud heritage of this Nation, if the means at our command were wisely applied.

One of the railway systems with which I am connected, operating 7,285 miles of line, is in sound physical condition at the present time, but I am sorry I cannot say as much for its financial condition. Through stress of the adverse circumstances, which I have already mentioned, it has been obliged to default in its interest payments, and, as a consequence, its control has been taken from its owners and put under a receiver by the Federal Court.

Although its business and gross revenue have shown substantial increases in the past eight years, the earnings going from $44,000,000 in 1908 to over $62,000,000 in 1913, nearly $60,000,000 in 1914 and over $58,000,000 in 1915, the last two being years of business depression, it has not been able to pay any dividends during the entire period. Notwithstanding a rigid economy and retrenchment in expenses have been practiced, and a marked improvement in efficiency and in the unit of cost have been effected through the judicious expenditure of new capital, they have not been sufficient to overcome the enforced reductions made in rates and the increased wages and other uncontrollable expenses.

For the past eight years the owners have operated the property to the great convenience and benefit of the people. It has transported their persons and their goods with advantage and profit to them. It has kept employed during that time more than 44,000 persons and paid them two hundred and six millions of dollars in wages. In addition, it has paid $96,000,000 for fuel and materials, $75,000,000 of which represented labor in other industries. It has paid over $17,000,000 in taxes for the upkeep of the States' institutions. In four years it has expended $21,000,000 of new money in road and equipment,

and with all this—a public benefactor as it has proven itself to be—the owners have not received one dollar in return for their labors and investment for eight years.

The scriptural maxim, that "The laborer is worthy of his hire," is unfortunately not one that meets with merited consideration in the railroad field of endeavor, and pity it is that our ever alert and enlightened people should not on this railroad problem be fully alive to their own true ultimate interests and give fitting support to this indispensable enterprise that is unceasingly contributing to their comforts and welfare.